POLICE & FIRE PENSION ADVISORY COMMITTEE

AUGUST 7, 2003

Members present: Jim George, Aaron Drake, Greg Sorensen, Mark Meyerson, Mark Westphalen, Mike Donnelly

Members absent:

Personnel Dept.
Resource Staff: Georgia Glass, John Cripe, Paul Lutomski

Others present: George Peterson, Todd Peterson

JIM GEORGE: Well, I guess I'll call the meeting to order, then.

PAUL LUTOMSKI: The first topic was that Joe Yindrick has resigned the Advisory Committee and was replaced by Greg Sorensen, who is sitting directly across from me.

PAUL LUTOMSKI: I have an e-mail from Ed Sheridan saying that Greg was elected by secret ballot. There were three police officers on the ballot. Aaron has asked that we contact the Mayor about getting Joe a certificate of appreciation, so we will do that. Then, as a reminder I sent out the ordinance for the Police and Fire Advisory Committee, and I will read this very first part, which says that "the committee is established to advise the City, with regards to the general operations of the plan and that the committee shall be consulted and act as an advisor with regard to the investments of the funds of the plan and all sums credited to the fund." As we have said before, and Georgia has sent a letter to the other committee members, we're not here to talk about benefits in this committee. So with that said, I will go to item 2, which is the minutes of the February, 2003 meeting. I hope you had a chance to read those. We'd like you to vote to amend those or approve them.

MARK WESTPHALEN: Move to approve.

MICHAEL DONNELLY: Second.

JIM GEORGE: All in favor? Say, "Aye."

Chorus of "Aye"

JIM GEORGE: Opposed? Motion carried.

PAUL LUTOMSKI: Item 3 of preliminary ideas on asset allocation. I have a couple notes that I just wanted to say, in case you didn't have a chance or the desire to read through this whole thing, but on the topic of general investing, there's an article in Pensions and Investment magazine written by Peter Burnstein, who is kind of a recognized authority in investing, although he is 80 years old. He initiated some thought about asset classes and natural hedges. So I just wanted look at this article a little bit. He's thinking that over the next ten years equities or portfolios that comprise a large amount of equities are going to be in a dangerous situation because they're really not going to compensate you enough for the interim volatility that those equities have, and he thinks that the prospect of future terrorism is still a real threat to equity markets. The normal thinking is that stocks should outperform bonds in the long run, and he definitely agrees with that. So he's suggesting kind of a different way of looking at your assets. He's recommending an equity core, just in case the stock market does perform very well, but then also balance that equity core with a set of hedges. To hedge against extreme outcomes, such as inflation, and the fluctuating value of the U.S. dollar, since the USA is a diminishing part of the global economy. So the message is to raise some natural security hedges, and have some diversification. Then there was another article in Pensions and Investments: The Way Out of the Funding Crisis. Well, the short of the deal is that you're going to need some stability of market value returns because of this net pension obligation now required, that cities have to report on. But you want also to keep in mind the rational asset allocation. So if your target is seven and a half percent, you want to arrange your assets to try to meet those targets, but with a minimum volatility in mind. And, there was an asset allocation presentation by Lord Abbott at a conference John attended and basically they're saying that once again risk is unavoidable, whether it's terrorism, or just regular old stock market risks. That risk management techniques exist, such as hedge funds, and treasury inflation protected securities, and that diversification is critical. We had J.P. Morgan look at our assets, and they basically are saying we need to get to about a 50-50 mix between stocks and bonds. There was a paper by some PhD's. This is the

Webb Maguire and Stake real estate document that I'm talking about. They determined that about a five to fifteen percent real estate allocation would lower your risk without lowering the return of a fund. They also mentioned that a real estate constitutes 11% of total capitalization of the combined stock, bond and real estate markets in the U.S. That including real estate will, in a mixed asset portfolio, lower risk and increase diversification.

JIM GEORGE: Did they suggest any particular type of real estate investment?

PAUL LUTOMSKI: No. They just said, "real estate".

PAUL LUTOMSKI: One way pension funds can insure they hold prudently diversified and reasonably efficient portfolios is to hold something close to the market weights of the various asset classes. So, in real estate, we've got commercial, retail, residential, multi-family. So they're saying, you know, if you stick kind of close to those market weights, don't put everything in commercial, or everything in retail, then you're spreading your risk that way, too.

JIM GEORGE: Are they referring to limited partnerships?

PAUL LUTOMSKI: They didn't specify that either. They just said, "real estate investments." Whether it's, you go buy the building yourself, or get into a partnership, or a real estate investment trust. And they also say that timing is favorable as real estate is priced to a relatively low multiple, meaning there's a high income return. They expect modest appreciation on top of these high income returns that should provide an attractive total return over the next few years. Let's see. There was a survey by Institutional Real Estate Magazine that showed pension plans with combined assets of a hundred and twenty-three trillion dollars on average had an eight and a half percent real estate allocation. A survey by Greenwich Associates showing a four percent real estate allocation by municipal pension plans. And then, just for your information, we threw in a strategic outlook that we found by C. B. Richard Ellis, a real estate management company. Then on to treasury inflation protected securities, as part of our research we did in February. They're a treasury bond issued by the United States Treasury. The interest rate is set at auction, and that interest rate remains fixed throughout the term of the security. The principal of the security is adjusted for inflation, so when inflation goes up, the principal amount of the security goes up and the interest rate stays the same, therefore the coupon payment you receive goes up as inflation goes up. Then the coupon payments are semi-annual.

GREG SORENSEN: You've got to say that again. You've lost me.

PAUL LUTOMSKI: Okay. With a bond, they have something called principal, like a thousand dollars. Just a normal amount. Then they have an interest rate. If the interest rate is 5%, and they pay twice a year, you're going to get $25 every six months. Okay? If inflation goes up, just to keep it easy, like ten percent, all in one year, they're going to take that thousand bucks and increase it by ten percent, so it's eleven hundred dollars, so then you're going to get five percent of eleven hundred dollars paid to you every six months. So instead of twenty-five bucks, I guess that's twenty-seven fifty.   That's what a treasury inflation protected security does.

AARON DRAKE: A tip.

PAUL LUTOMSKI: We have a couple more informational pieces about that, and then a print out of a power point presentation at an April conference on foreign bonds. John attended a conference in February, and the message from that presentation was that the foreign bonds over the last 25 years have returned 10.1% annually on average. U.S. bonds over the last 25 years have returned 8.4%, so foreign is ahead by 1.7. Over the last 10 years, U.S. bonds have returned 7.3%. They're lumping them all together. Then foreign bonds, they broke into two different pieces: hedged or unhedged. Let's just talk about unhedged first. Unhedged yielded 5.6%, and what "unhedged" means is that they're hedging the foreign bond investment with currency fluctuations. So if the U.S. dollar changes in relation to the currency of the country of the foreign bond investment, they don't want the currency fluctuation to hurt them in terms of their bond investing. So they're trying to hedge this and negate the currency differences. So when you hedge it, a foreign bond investment is 7.7% versus a U.S. investment of 7.3%. If you don't hedge it, over the last ten years, it's 5.6% for the foreign bonds. Now, over the long period, it doesn't matter if you hedge or not, because all of these currency fluctuations average each other out.

But over the short period, there's more volatility in the price if you don't hedge for currency fluctuations. So, just keep that in mind, because what we're looking for at this point anyway, is a foreign bond fund that is hedged. Because we're going to get the same long term returns as if it weren't hedged, but in the meantime, we won't have to deal with massive price fluctuations.

JIM GEORGE: Probably at a greater cost, obviously.

PAUL LUTOMSKI: I don't think so. No. Everything is so automated with computers and what not and the expense ratios look pretty good. So, with that said, Item 4 and then Smith Hayes is up. Item 4 is an update on the board of trustees ordinance. This piece of paper here. You've probably had a chance to see that. On April 21 of '03, an ordinance was introduced by City Councilperson Coleen Seng, and I think that's just because she was the chairman. To eliminate the current governance structure, create a board of trustees that would control all aspects of the pension, and the original version was given to Mayor Wesely on December 9th by the Police and Fire unions created by Florida attorney Robert Klaussner. It was modified through negotiations with Lincoln attorney Paul Peter representing the unions and City employees without John Cripe's or my knowledge. And then on April 21, - Hi, Aaron come on in. Let's see, I called Aaron and asked him if we should have the normally scheduled May 2003 advisory meeting, because the topic of that meeting was going to be asset allocation, that we're here talking about now. And we decided that we were going to cancel that meeting as the new governing board of trustees could be in place as soon as two weeks after April 21, and that that board of trustees could wish to have a completely different asset allocation discussion, so we didn't have the May meeting. On April 28th, public hearing. Attorney Paul Peter testified in favor. John Cripe testified against. At the May 5th 2003 Council meeting Glenn Friendt made a motion to place the ordinance on pending, seconded by Annette McRoy. No action has been taken since that time. So that's the update. And, now Smith Hayes. Mark Bowen, I believe you've met George Peterson, and Todd Petersen from Smith Hayes. They are going to present their ideas on asset allocation.

GEORGE PETERSON: We're going to give you our ideas on asset allocation. I would start out by saying that if five of us gave this presentation, you would get some different ideas and wouldn't wind up with the same allocation, so we're going to give you the logic that we went through. It's much easier looking backwards, than it is forwards and trying to decide what the different asset classes are going to do. Let's just get started with it. Some of this is somewhat elementary, but everybody has got a little different background.

GEORGE PETERSON: Okay. Defined benefit plans, as you know, deal with long term investments and pay out cycles. A lot different than some investments. Accumulation phase is basically the ages between 21 up to 55 or 65, depending on when people retire. The payout period can go from 55 or 65 out to, we use 87, because that's kind of what Uncle Sam now tells us that most of us are going to live. This on a 2002 life expectancy table put out by the IRS. If you're 65, they think you're going to live 21 years. And these are unisex tables now. 70, they think you're going to live 17. 75, 13. For 80, they still think you're going to live another 10.2, and at 85, 7.6. Interesting. That table goes up to 110, and they still think you're going to live 2 years, if you're 110. But it just gives you an idea that the longevity has been going up. Because of these long cycles, investment allocation should be viewed over long cycles as well. For defined benefit plans, the funding comes from the taxes that the sponsor puts in, and participant contributions. It also comes from investment returns. Not always, but that's what you hope. Income from investments and growth of the investments or appreciation. The decreases come from withdrawals from the plan. Investment returns can give you declines in the asset value. So look at tax contributions as sources of the increase. This year it assumed 1.750 million going in and participants putting in a 1.8 million for a total of 3.55 million. The decrease, regular pension payouts were 4.2 million. DROP payments, now up to a million six twenty. And then employee contribution refunds. These are employees that leave and take their refunds, the with them, and that's obviously an estimate of a million dollars. So we've got 6.82 million eight twenty going out. So we've got increases of 3.55 million. A deficit there of 3.27 million. That has to be made up from the investment returns. This is not a huge amount. That's about 2.5% that you have to have just to meet your obligations. Income from investments comes from CMO interest that you have now. Those are short term investments. 3.81 million. Real estate, you have right now about 700. That's not taking into consideration dividends on some of the equity investments you have, and interest in some of those investments. So that really gives you a little surplus there of six hundred and ten thousand. Investment background. Again, this gets a little elementary, I think, but we have two things we have to measure: what risk are we willing to take and what kind of return do we need to get or what's our target return. It's kind of a balancing act. Low risk investments are treasury bills, CD's. High risk, on the other side, would be commodity futures, which we're not discussing, but that's way on the other end. Venture capital would be one. So we have this balancing act with maybe T-bills on one side and commodities on the other. And the small cap stocks in here, large cap stocks. We can look backwards and see how much risk you're taking, but they do change. So we really have a balancing act. Investment risk is typically measured by standard deviation. It's a measure of how widely the actual returns were disbursed from the average return. We're just going to give you a couple of ideas here. Let's say that an investment, whatever investment that is, has an average over a period of time of ten years of 2.35% return. What really happened in that ten years? So the average 2.35 with a standard deviation or up or down from that deviated 1.4. Which is not a lot of risk. Let's take the same investment and let's say we have a lot more volatility. Here you can see it bouncing around, one way up, one way down. Here, if you did this mathematically, the standard deviation is 4.1. We got the same return, but we took a lot more risk during that time. A lot more volatility. So the standard deviation formula, and we're going to have a test on this later, but not really, is the sum of the square of the difference divided by the number of returns. Luckily somebody else does those for us. So let's say we have an investment with a standard deviation of about 4.1. And this is a fund that gives us 8.1% return. So if we put those on a chart, we have a 4.1 standard deviation on the horizontal, return plotted vertical. So we can chart these. Let's look at four comparisons here. Here's fund A, B, C, D. And let's say that the benchmark is 4.1 standard deviation - with the average return of 8.1%. We look at three other funds. We get a 6.3% return and a standard deviation of 7.3 on your return. And so on. If I were picking a fund there I would want to take C. It had the lowest standard deviation, and yet gave me a 9 point return. It seems logical that if I had that choice of those 4, that that's the one I would pick. It gives me a reasonable return with the lowest standard deviation. Investment performance, we're looking at two things. One is the past and one is the future. One thing you need to be careful of is not to be looking back too far, because you're going to crash into the roadblock there. So we have to look at both the past and the future, as best we can. Past performance is experience coupled with the probability of future return in the forecast, and that helps us in making our asset allocation decisions. What are some key questions? Well, first the major is what is the target rate of return you're trying to achieve? If that was 4%, we'd probably put everything in government bonds. What investment asset classes historically have been capable of producing this type of return? Given the return target, how much risk is prudent to take? What are the standard deviation of each asset class being considered? And what are the consequences? How bad can we get beat up if we miss the guess? Okay. We're just going to use an example here of target rate of return is 7.5%. And we're going to look at several asset classes and their average returns. Well, we're going to look at a couple things, some examples here of why this is a difficult task. Let's look at cash. Five years ending 1999, it averaged 5%. When we say "cash" that's in money market funds, not actually holding it as cash. But they average 5%. Bonds during that time averaged 7.8%. Large cap growth stocks, 31%. Small cap value stocks, 20%. Obviously, you should have had all your money in large cap growth stock during that time, right?

TODD PETERSON: Might just explained the difference between value and growth.

GEORGE PETERSON: Yes, okay. Value and growth. Growth stocks typically are stocks that have not paid dividends. You're buying those kind of stocks based on betting on how that company is going to do. Value stocks historically are stocks that are paying dividends, are more stable and you have a better idea of what you're buying. Warren Buffett's a value manager. He likes companies where he knows exactly what they're going to do. Here, we're looking at 5 years ending 2002. That's three years later. Cash in this case only averaged 4%. Bonds, 7.6%. Large cap growth stocks averaged 2.4%. And small cap value stocks 3.5%. Glad we didn't have all our money in growth stocks.

Let's look at ten years now and some of the same things. Cash, ten years, staring in 1970. So it would be during the 70's. You average 6.3%. Bonds 6.9%. Large cap growth stocks, 5.8%. Small cap value stocks, 11.5%. Ten years starting in 1940. And the reason we're doing this, showing you this, there in ten years starting in 1940, you got 0.4% in cash. 1.8% in bonds. 9.1% in small cap growth stocks, and 20.7% in small cap value stock. So here are some periodic table investments return. This is 1983. Russell 2000 value. That's 2000 stocks, which would be basically small company stocks in it, because it's looking at 2000 stocks. 38.64%. A great return. The plan of growth and value, 29.13%. The Lehman Brothers aggregate. Bonds was 8.35%. So just about any investment you picked in 1983 was super. Now, let's go to 1994. MSCI is foreign stocks. 27.28% That was the best return you got that year. Now we're looking at the Lehman Brothers bonds, you actually lost money in bonds. That was then during the - interest rates were going up during that time and you actually lost money in bonds. So it's quite a trick to figure out where to be. This calendar report goes back to 1983, and looks at I think 9 different investments. See up at the top there are growth stocks. There's 4 years in a row, '95, '96, '97, '98, that that was the place to be. But look down here. These are in sequence by the ones that did the best on top, and so on. The last three years was they were the worst place to be. The S&P 500 is an index that maybe you all know about. It's 500 of the largest stocks indexed. And I think it's a better index than the Dow. The Dow industrial average is only 30 stocks, and it's being followed more, but here over the time from 1930 to year 2000, '90 is very late, you average 10.98%. If there's a blue line, you beat that average, like 8.27% during the '50's, 6.51% during the '80's, 7.19% during the '90's. It looks like there's four times that you did much less than the average. In fact in the '30's you broke even. The average over that time was 10.98%, and that year you were below that by 10.98%. For intermediate bonds, 5.17% average during that time, and you can see there's 4 decades in there where you were below average. So looking ahead is somewhat difficult. The market we're in right now looks to us like it's quite a bit like the 1950's. Very low interest rates, and that's where we're going to kind of take some of our estimates on for the future. Stocks, it looks right now like we're kind of in the 1970's. We are at a 45 year lows in interest rates. Now, saying that, this was done a couple of weeks ago, and if those, Mike knows, and Mark knows, in the last two weeks, some people call it the hundred year flood. Interest rates have just shot up. Mortgage rates two months ago you could have gotten 4 5/8ths of 4 7/8ths on a 15 year loan. Today they're 5.5%. So when we did this, we were at lows. Right now we've moved up a little bit. When was the last time we had ten year coupon rates of 3 5/8ths, this would be on government bonds. Today there was an auction of ten years, and it came out at four and a quarter. That's quite a jump and all that, most of that has happened in the last three, four weeks. Any comments on that, Mike, or Mark? It's just been a huge jump in short period of time. I mean, I think the percentage of that has been a big jump.

MICHAEL DONNELLY: It's the largest jump that we've seen in 25 years.

GEORGE PETERSON: Yes. 1950's and the early '60's bonds intermediate government, this is what they looked like. The coupon rate, and then the 10 year total return after that, they - For example, in 1968, the coupon rate was 4%. In the 10 years following that, the average return was 6.6%. Does that make sense to everybody?

Okay. So, you can see what's happened when coupon rates were down low. What happened in the next 10 years. There's 1954. This is where we were when we did these charts, on the ten year, 3.63%. So that kind of fell in between there and 1968. So, where are we going from here? The 10 year total return historically had been within about 2% of the current coupon rate over the next ten years. So we expect total returns to be somewhere between 3.6% and 5.6%. Again, the last month, we changed that a little bit, but we're looking at a moving target, and we don't know if rates are going to come back down, or what's going to happen, from where they are right now. Stock returns are made up of two thinGreg Sorensen: growth style funds would be mostly growth and then maybe some dividends; value would be less capital appreciation and more dividends. And that doesn't mean they get the same return. One of the last times prior to the '80's and '90's we've had above average equity returns was the 1950's. This is what large growth companies did, is 8%. During the '70's 3.6%. Large value, 11.1% to 12% 9.8% - small growth. Small value, 15.2. We've kind of picked the 1970's, and were thinking maybe that's what we're looking like in the next ten years. And I will say that whatever we do today will be reviewed at least on an annual basis and things will change. We can only go over what we kind of know at some set time. Dividends may play a more significant role in total returns over the next ten years. You can already see the last couple of months that companies are raising their dividends. Dividends, used to be an ordinary income, has now been set at a 15% rate for most people, so .... There's always been a double taxation of corporations that are taxed on their earnings that they pay out dividends, I, as an individual, was taxed again. And that happened in ordinary income. That's been changed and probably fairer the way it is now. But dividends may play a more significant role in the future. Companies who have never paid dividends are starting to declare dividends. Let's look at some asset classes. First of all, cash we mentioned are money market funds. U.S. Bonds, we have government bonds, we have agencies, we have CMO's, collateralized mortgage obligations, we have corporate bonds, treasury inflation protected securities, tips - that's the one that Paul mentioned that the principal goes up with inflation. We have foreign bonds and then we have convertible securities. Convertibles, and there have been more of these in the last two months, can be a convertible preferred or a convertible bond. If you buy that, you can convert it to the company stock at some level, and it will be x number of shares. If it's a bond, then you can convert that to shares in the company. So the prices on a convertible security will move up and down somewhat with how the company is doing and somewhat with what bond rates are doing. Stocks, we looked at 7 different ones. There's small value, small growth, mid value, mid growth, large value, large growth, private equity, and we're not suggesting private equity. Then we looked at foreign stocks, large cap and you have emerging markets. And real estate, as Paul has talked about, and hedge funds. Okay, here are the numbers we came up with, and again you can certainly take exception to these, but we came up with where we see total returns over the next ten years, where you look at it right now. U.S. Bonds 4%. Foreign bonds 5%. Real estate, this came from J.P. Morgan, 7.3%. Cash, 2%. Treasury inflation protected bonds, 4.5%. Foreign stocks, 8%. Large growth, 3.6%. Large value, 12%. Mid growth and mid value, there's not as much historical data on this, but we did 4.4% and 13%. Small growth and small value are 5.3% and 15.5%. And small value looks pretty high, but if you go back historically and look, except for the 1930's, small value stocks have been an excellent place to be invested. Hedge funds, we used 7.4%. That's a J.P. Morgan number. Convertibles, 7.5%. Convertibles, again, have not, there haven't been as many statistics on that. We did go back and look at a bunch of convertible funds. The John Calamos[1] Fund and some others. They've actually averaged 10 and 11 percent over the last ten years. But that is a little bit of a guess. Okay, would we go a hundred percent bonds? No. Would we go a hundred percent stocks? No. So what do we do? This is called an efficient frontier, where you put all the investments in and you say, "Just give us the best place to be." And if we did that without constraints and said we're looking for 7.5 or 8 percent, this is how the software would put us. 28.1% tips, 10.2% in real estate, 61.7% in small value. Well, that's not a good mix and that's not anything that we would do. That projected would give us, with the numbers that we had put in the return, the portfolio return, 11.58%, and a standard deviation of 90.33. So what we have done then is come up with , and again you can question these, and we can discuss them, minimums and maximums to put in any one class. Cash 1 to 3 percent. Domestic bonds, 20 to 50 percent. Foreign, 5 to 15 percent. Tips, 2 to 10 percent. Stocks, total, 20 to 50%. With Large, 6 to 40%. Value - Large value, 3 to 20%. And large growth, 3 to 20%. In other words, we want at least 3% in each one of those large value and large growth, and we don't want more than 20%. We did the same thing with the mid cap stocks, 3 and 20 and 3 and 20. We did the same with small stocks, 3 and 20. Foreign, was 5 and 15. No less than 5%, no more than 15%. Hedge funds, minimum of 3, maximum of 10%. Real estate, minimum of 2 and a maximum of 15%. We look for a 7.5% return. That was, and you said, that was an example that we had before. So if we move on this efficient frontier, we go to that spot, saying, "Give us a 7.5 return."

PAUL LUTOMSKI: At the lowest possible risk.

GEORGE PETERSON: Yes. At the lowest possible risk. This is what it would have done for us. The small value stock, 17.7%. Real estate, 11.3%. 20% U.S. Bonds. 15% in foreign bonds. We get a standard deviation of 6.68. Now we moved around and said, "What if we want to get 8%?" And this would give us this kind of a structure, with a standard deviation of 7.35. We went up to 8.52% return, standard deviation ends up 8.21. Up to 9%, 9.09. Et cetera. So we just kept moving that along, and here's one at 9.08% with a standard deviation of 9.75. We want the 7.51%, but this is not a guarantee. The software there is a probability of getting of 46.3% Interestingly, if you go up and take more risk, your probability can go up, and that is because in value stocks, for example, they figured the probability of getting the return is better than it is in real estate or some other. You can question that. You can see that we could go up to 8.52 portfolio return, 8.21 standard deviation. We moved up from 6.68. And here the probability of hitting that, is 53.5% according to the software. Then we can move up another one from that. And then it starts getting diminishing returns, in terms of SD versus return, when you go beyond that.

PAUL LUTOMSKI: You've got a 53.5% probability of earning 8.52%, so that implies a higher probability of earning 7.5% over that same time period.

GEORGE PETERSON: No.

JOHN CRIPE: If you pick that asset mixture, Paul is saying that, you should have a higher chance of making 7.5% on that mixture ....

GEORGE PETERSON: It's very important to do this annually. Check the expected return to actual. Standard deviation is there. We know what the standard deviations are. The returns that we picked, the ones that we showed you earlier, are the ones where you're going to say, "Hey, I don't believe those." Then okay, what number do we want?

GEORGE PETERSON: We are recommending the portfolio with an expected return of 8.52% with a standard deviation of 8.21. It seems like risk-reward was worth it there. If you go with this rebalance it, at least once a year.

MARK MEYERSON: Can I ask you a question? Did they look at taking our pension portfolio or current asset mix and plugging it into this software to see what kind of numbers that showed?

PAUL LUTOMSKI: No.

MARK MEYERSON: Did we ask them to do that?

PAUL LUTOMSKI: I don’t think so.

MARK MEYERSON: Wouldn’t that be a good idea?

GEORGE PETERSON: We can do that. We did not do that this time.

MARK MEYERSON: But this is.... would be about a fifty percent equity portfolio, right?

GEORGE PETERSON: Right.

JOHN CRIPE: Well, our intention in making the presentation is to move in that direction. We’re at 30% or so today. And so you are going to buy more to move towards 50%. That was the intention of looking at the asset allocation, and seeing where, if you were going to go from 30 to 50, where would you put the money? Or what kind of class and what styles?

GREG SORENSEN: Well, that’s a good question, Mark. To see where we’re at now.

MARK MEYERSON: We we’re approved by - Didn’t Mayor Wesely tell us to go up to fifty, at one time?

JOHN CRIPE: Well, the stock in your investment policy has a 50% in it. We have been trying to hold 30, but in the economy in the last year or so holding 30 has been tight. So, we had talked about this last fall, and in February, about the asset allocation and where we should head with new investments. So this started, you know, as a result of the February meeting, looking at where we would put dollars and when. We had 15 million or 20 million in cash in anticipation of re-allocation in May.

PAUL LUTOMSKI: We have 2.8 million in a money market right now, and about 250,000 in cash.

JOHN CRIPE: We have some CMO’s coming due this fall. It seems like we had something.

PAUL LUTOMSKI: Well, we used to, but now that prepayment rates have slowed, the CMO’s probably won’t come due as soon as they would have if people kept refinancing.

JOHN CRIPE: We were worried about the refinancing. You know.

In equities, because you know it took us twenty months, or twenty-five months to dole the money in. What was it? 300 thousand, or a half a million a month, or something?

PAUL LUTOMSKI: We were putting three hundred thousand every week into the Calvert's corporate bond fund, for a while. When we talked to Mayor Wesely and he said we could increase the equity allocation, it was roughly half a million every month, but I'm not one hundred percent sure of that. Until we got to the 30% certain level.

JOHN CRIPE: That seems to be right. As we, as this committee voted to dollar cost average in. I think it was a half a million dollars. And of course that would be how you would do it today. But some of the asset allocation would be a restructure of your existing equities, as well.

MARK MEYERSON: You know what would be nice, you know, talking about rebalancing, I'd like to see a nice simple pie chart like this of our current portfolio. Because this is real easy to understand.

PAUL LUTOMSKI: We can do that.

MICHAEL DONNELLY: Just a couple comments, I guess. As John was pointing out at our last meeting in February, we did discuss, quite a bit, the asset allocation study and it is my assumption that that's what we're talking about today. An asset allocation study. At that meeting we also discussed the merits of diversification, which, again, this points out the merits of diversification. The current fund, I think, is diversified enough on the bond side perhaps, but not as much on the stock side. If we do increase, as we talked about, the stock portion of the portfolio and we talked at the last meeting of perhaps looking at the Calvert Social Index fund, and we tabled that at the last meeting. This study, of course, points out the fact that we do have a lot of areas that are not covered on the asset allocation side. Some of the small cap areas, some of the mid cap areas, which as George and Todd pointed out, are areas that have, historically, and you always have to underline historically, have had outstanding returns over a long period of time. I think this is a good move in the right direction. Again, to get some kind of basis for a good qualified asset allocation to move with. The problem that we have is that right now we're probably in a unique situation with the bond markets rising, and maybe 50% of our assets link directly to those types of returns.

PAUL LUTOMSKI: Well, we thought that rates would eventually head up, so in anticipation of that, earlier this year we basically sold all our long term CMO's.

MICHAEL DONNELLY: Shortened. Right. Shortened.

PAUL LUTOMSKI: And shortened those up, so our average duration on the CMO portfolio is about less than one year. I just did the numbers for this last month. Our CMO portfolio decreased by 1% in July, because it's such a short portfolio that the rising interest rates didn't affect the market values very much. Fiscal year to date, we are at 5.7%. Calendar year to date, we're at 5.3%.

MICHAEL DONNELLY: Total return. What is are the equity portion?

PAUL LUTOMSKI: I'd have to look it up. I don't know off the top of my head. So we have one person speaking in favor of changing our asset allocation?

JIM GEORGE: I guess I have a question as to how does this compare to what a money manager would do, if we would hire a money manager to look at our asset allocations? Is this basically what they would do? Do they have software, or something that ...?

MICHAEL DONNELLY: Smith Hayes is an asset manager.

JIM GEORGE: This is. You're looking at one.

MICHAEL DONNELLY: One right here. Yes.

JOHN CRIPE: It just didn't cost us Jim. Oops.

JIM GEORGE: Right.

GEORGE PETERSON: I know, and Mike would have some other examples of this, of State of Nebraska. We're kind of under a little different situation. They are about 70% in equities and 30% bonds ... and that's the way they have been. And they are using national firm Willshire and Associates. They're heavier on equities. If we took the constraints off you would automatically go to 30% bonds. Just because they're low rate right now.

PAUL LUTOMSKI: Well, George, you've got a slide that says if you took the constraints off the system, wouldn't it be 10% real estate, 28% tips and 61% small cap value? You can't just use the numbers. You have to apply some thought.

JOHN CRIPE: Well, you're also looking at a 40 year investment horizon. Theoretically, you're looking at funding somebody's retirement based on them leaving at 55 and dying at 87. And having sufficient dollars to fund all that as you go forward. People with a shorter timeline may not be funding that way, but pensions are funded for the life of the employee who starts today, and so they're funded over a 40 year window.

MICHAEL DONNELLY: I'm relatively new to this committee, but one of the challenges it that this is a defined benefit pension, unlike some of the other State and municipality defined contribution plans. In this particular plan, we could be very aggressive with the assets, and, pardon the expression, hope like hell we're going to see large increases to reduce the City's taxes that are needed to fund this, or we could be very conservative. And what you're looking at here with the standard deviation is that. Are we going to be aggressive? Or more aggressive than we have been in the past? In other words, take a higher standard deviation, or risk, and assume that over the long period of time we're going to have a higher return. Or do we want to lower standard deviation and accept a lower potential rate of return? That's the biggest challenge you have with the defined benefit pension plan. Unlike a defined contribution plan, where perhaps the individual has the opportunity to go out and select between a menu of funds their own asset allocation and be aggressive or not be aggressive. So really we get down to hearing from the Police and Fire representatives a little bit on how aggressive do you want to be?

JOHN CRIPE: The benchmark is already set at seven and a half percent. So you start from the perspective that you need to earn that.

MICHAEL DONNELLY: I understand that.

JOHN CRIPE: How much risk . . .

MICHAEL DONNELLY: How much above that, is really what we're talking about.

JOHN CRIPE: Yes. Right.

AARON DRAKE: I agree with you. But I want to make sure that the impetus of the change should not be a reaction to the City's financial woes. It should be a desire to increase the long term revenue return or to take a more conservative approach. But not to try to make up what the City has lost, or pull back and become less aggressive. I agree with you, but I want to make sure we're coming out in the right direction.

JOHN CRIPE: Well, from our standpoint, we've been trying to move this way. I mean it's been a little slow, but the committee has been moving in this direction for a long time. From 5% to 7% to 10% to 20 to 30% in equities. Now we're trying to edge forward to what would be our maximum exposure - perhaps fifty percent. And then we've never had a formal principle of rebalancing. So, as we said in February, rebalancing is a key issue and a key part of this, so in order to be able to do that we have to set whatever standards you're looking at. So the asset allocations that they're providing you is an opportunity to say, "Okay, these are areas that we should be in," and the approximate percentages, with a little wiggle room, so you don't sell, you know, when you get to that target, but you do at the end of June or whatever, so we can balance before the new fiscal year, or something. So we wouldn't get the 50 next year. I mean you may get to 50 if you started today, over the course of two years. So that you could buy in as the market moves. So the decision you make today is moving in that direction. I think that's the purpose of the presentation.

PAUL LUTOMSKI: Can we have a vote to become more aggressive than we currently are?

JIM GEORGE: Oh, I guess. First of all, do we even know what our standard devi- What's the word?

PAUL LUTOMSKI: Standard Deviation.

JIM GEORGE: Deviation is right now, currently?

PAUL LUTOMSKI: No, we don't, but I'm thinking it's lower than the recommendation.

GEORGE PETERSON: Right or wrong, or indifferent, in hindsight we could have run that, but I know in today's world that's going to bring the return down pretty dramatically, with the way you're invested right now, just mentally knowing where you're invested right now.

JOHN CRIPE: Looking at, looking at the portfolio today, Jim, we can't make our 7.5 assumption.

GJ: What are we making?

JOHN CRIPE: We made 5.7, and we're not done with the year. Our risk is relatively low. But the way it's composed today, is we can't make our 7.5 assumption. I'm not trying to buy the tax payers a break or the City. I'm trying to earn the assumption. Seven and a half.

MICHAEL DONNELLY: We haven't made the seven and a half for the last 3 years, have we?

JOHN CRIPE: Right. But we are positive, and you can't say that about 90% of the pensions in the country. And so we have positive returns for the last three years, including this year. But we're still not making our 7.5, that's our target, so we need to restructure. We're on board with you about the restructuring. The issue is how much risk do you want to go?

JOHN CRIPE: And when George put up the 8.4%, and Paul's point is, "okay, we take a 53% chance of making 8.5. Well, maybe that's an 85 or 90% chance of making our assumption." That's better than our portfolio stands today.

PAUL LUTOMSKI: The proposed asset allocation is at one time, both more aggressive and more diversified than our current asset allocation. So we're increasing our probability for a higher return, and mitigating our risk at the same time.

JOHN CRIPE: Yes.

JIM GEORGE: So we know our risk is higher than this?

PAUL LUTOMSKI: No, our risk right now is lower than this.

JOHN CRIPE: The return is, too.

PAUL LUTOMSKI: Right. The potential for return is going up more than the risk is going up.

JOHN CRIPE: If you went back to 1990, we have all bonds. I mean 1989 was the change from the legislature to us. It's all bonds. Then in '92 it becomes a big share of bonds and CMO's and strips. We started to diversify, but only on that half of the portfolio. Somewhere in '93 we started getting a look at mutual funds. And so, although it was always in the asset allocation mixture of the plan for the investment document, we didn't own any. But while we started buying in at 5%, and at 7%, all that time climbing that risk return ladder. I mean, we've been coming from extremely risk adverse to taking on a little bit more risk each time. And our earnings over a long period of time should be better. This is a pretty, fairly conservative way of us getting at 50% equities and still having a good shot of making our assumption.

PAUL LUTOMSKI: And if you don't like it, you can talk about changing it later.

JIM GEORGE: Well, I don't disagree with you. At all. To me, the only question is at what level do we ....?

GREG SORENSEN: I would be interested to know what other pension funds around the country like ours are successful and what their portfolios look like.

PAUL LUTOMSKI: They've all lost money.

JOHN CRIPE: They all lost money. They're not successful.

GREG SORENSEN: Surely, there are some.

JIM GEORGE: Look at them, though, in a twenty year time period.

JOHN CRIPE: Well, that's a different scenario. We don't have a 20 year history of having equities as part of our portfolio.

JOHN CRIPE: We don't have a way of gauging us against the 20 year scenario.   I mean we do against 10. At 10 years we've averaged more than a 9% return, which is well above our assumed rate of interest. You can look clear back into the ‘80's before you find us being below assumed rate of return. So, you’re looking at what your plan is intended to do, and where your intention is to go. For example, if somebody lost 8% this year and several of them did, some of them lost 12, well you have to make that much difference, you have to make that plus the assumption to break even, so you have to have a 20 or 25% return to make up what you lost. I mean with a positive return you don’t have to do that. So we are conservative, more conservative than the other plans.

MARK MEYERSON: That’s - Question: I mean the average defined benefit plan is 50 to 60% in assets, that’s what I read.

JOHN CRIPE: Right. What’s their 10 year return?

MARK MEYERSON: You said yourself over the long term, and I mean there’s really no arguing with equities as going to give you a higher return, over the long term.

JOHN CRIPE: Right. And we’re not arguing today. We’re saying, “We’d like to get to 50. This is the plan to get to 50, and this is the plan to diversify the portfolio.” So what we’re looking for you to say, “Yes, this is a good plan. Let’s go in that direction.”

MARK MEYERSON: Well, I thought this committee felt for a long time that we wanted to work up to 50%. I mean I remember when it was 5 and we got him to go to 30.

JOHN CRIPE: Well, but we never went out and purchased it without you saying, “Okay.” I mean that’s why we’re here today, saying, “Folks, this is where we want to go. It will take us a couple of years to get there. We want you to vote to approve this plan. Then next August, we’ll revisit or next June we’ll revisit.”

JIM GEORGE: But don’t we need to be specific as to this plan? I mean there are several options. There was plan. Which one of those options do we chose?

GEORGE PETERSON: Our recommendation is in front of you, Jim.

JIM GEORGE: You’re recommending this one?

JOHN CRIPE: Right.

AARON DRAKE: Then your recommendation is to revisit this within a year?

JOHN CRIPE: Each year. Not just next year. Every year.

GEORGE PETERSON: The individual investments, because like the small cap values, for example, that probably would be in 4 or 5 investments for more diversification and looking at each one of those to see if they were pulling their weight, and doing what they were supposed to do, but also looking at the allocation we have. Do we have the right allocation for small cap values?

PAUL LUTOMSKI: My point is, if it isn't impressive enough for you, let's get going on it, and change it later, but lets get going.

JOHN CRIPE: Well, in a year from now, if you had 20% of your portfolio supposed to be in small value and at the end of that year performed the way that you suspected it would, it very well may be 25% of your portfolio, and that's not your asset allocation, you would want to move from there to something else. So that's the part of rebalancing we're talking about. Some people do it semi-annually, some do it annually. That's a component that this committee and this plan has never had. And we think it's extremely important. That's why we brought it forward last February.

PAUL LUTOMSKI: But internally, we rebalance continuously.

JOHN CRIPE: Right. We're constantly looking at it. But this is a formal process, where the committee would look at it every year.

MICHAEL DONNELLY: Are we talking about slowly moving to this asset allocation model?

JOHN CRIPE: Right.

GREG SORENSEN: Over what period of time?

JOHN CRIPE: The issue is how do you buy into the stock market. I mean you take a risk if you buy all at once, both in the fixed income side and the equity side. So we as a group have always dollar cost averaged into the plan. We figured out what we wanted to buy, and we bought it over a year or six months.

GREG SORENSEN: Who picks the stocks, the small cap stocks, the growth stocks, the real estate? I mean who decides all that?

JOHN CRIPE: The two major pieces that were selected, were selected by this committee. And they were Vanguard and American Funds. Those are the two biggest pieces we have of our equity pie. Neither one really have a small component. First you have to agree to this principal.

GREG SORENSEN: So those are mutual funds?

JOHN CRIPE: They're all mutual funds. We don't own any individual stocks.

GREG SORENSEN: Okay. It's just a mutual fund. So you'd pick the mutual fund that you're going to go into, whether it's a small cap or a large growth, and then ..... Who actually buys that for us?

PAUL LUTOMSKI: We buy directly from Vanguard. We buy directly from Calvert. We buy directly from Pimco. We buy American Funds through Smith Hayes.

JOHN CRIPE: Right.

GREG SORENSEN: Okay.

JOHN CRIPE: Now, and you very well may find individual mutual funds in that array already. Or you may find that you need a different fund family. So far those funds have been fairly good for us in the equity side.

GEORGE PETERSON: Under this scenario, money would come out of American Funds, for example, because they don't have a good small value fund and that will be 20% of this portfolio. We just haven't looked at those little pieces yet. And if this is approved, then we'll take each one and look at it.

JOHN CRIPE: We would do an overlap with regard to individual companies to protect against owning General Motors in every single investment. Because if they go bad, then you go bad. So, you have to look carefully at each one of those investments. So we'd probably dollar cost average into whatever one of the investments we're looking at. Instead of selling 5 million of this and buying 5 million the same day, we'd probably buy over the market over a few months.

GREG SORENSEN: If we approve this we couldn't get to 50% this year anyway.

PAUL LUTOMSKI: Yes, we could.

JOHN CRIPE: You could. We'd have to look at it, but yes, it's not unrealistic to make it this year. It might be a little quicker than you need to, but yes. You certainly could make it within the next fiscal year, which is 12 months.

MICHAEL DONNELLY: If there's no way that we'll ever make our targeted interest rate assumption with our current assets, why wouldn't we move faster?

JOHN CRIPE: It does make sense to move. The question is how fast do you want to move?

MICHAEL DONNELLY: And there really are, George, and Todd, two schools of thought out there regarding income averaging. Whether you do, if you adhere and decide on this asset allocation, let's move to it right away. Or let's take a few months to move over to it.

GEORGE PETERSON: So we could look at that. I think the first, the main thing would be to approve this and then put a structure together, a plan to do it, which we haven't done. The only thing we've looked at is, as an example, was small value.

MICHAEL DONNELLY: Then do the fund analysis.

GEORGE PETERSON: Right.

JOHN CRIPE: And you could do the internally equity structure much quicker.

GREG SORENSEN: Would this pie chart be kind of a fluid thing then, for the months it took to get to that?

JOHN CRIPE: Yes. It has to be. If you said, "Okay, we're going to revisit it in June," you could expect the portfolio very close to this in June.

GREG SORENSEN: Well, but I would kind of expect that as that went along these numbers maybe would be run again once or twice to see if the percentages stayed this way.

JOHN CRIPE: Well, you'd be buying in and we'd be re-examining as you purchased. So, if we were already top heavy on large cap growth, we'd be selling it and buying value right away. I mean that's not the part of the structuring that hurts us. The part of the restructuring that hurts us is selling something that we'd lose money on, you know, in the CMO market.

PAUL LUTOMSKI: Some of it would be things that we could do right away. Some of it would make more sense if we stretched it out. It depends on each of the individual securities.

JOHN CRIPE: Well, if we come back to you in November and say, "These are the small cap recommendations," we wouldn't have done anything between now and November.

GEORGE PETERSON: I wonder if it could be moved faster through the mails or something.

JOHN CRIPE: We can always have a special meeting.

PAUL LUTOMSKI: I would think it would be pretty easy to get this done by the February meeting.

GREG SORENSEN: I still like Mark's question. Originally. Where are we now?

PAUL LUTOMSKI: We don't have a graph, but we do have a balance sheet, which shows you the same thing.

JOHN CRIPE: You do have kind of counter questions. The first question is how fast can we get to this chart. The second question is where we are today.

GREG SORENSEN: No, that question was the first question asked.

PAUL LUTOMSKI: This has where we're at today. Every single investment that we own individually is on this piece of paper.

TH: So do you have any small caps right now?

PAUL LUTOMSKI: Yes, we do. But we don't have much.

JOHN CRIPE: We don't have 20%.

GEORGE PETERSON: And it's more growth.

JOHN CRIPE: We have some total market which contains some small, mid and large. I mean you're in some funds that have all three, you're in some funds are blends. I mean if you're going to go specifically to those criterion, say, this fund we're going to select is not a blend, it is a small cap value, we may not have any of it. But we may have a blend that contains value and growth, or you may have small cap growth within the total market return that we have with Vanguard. I mean you own some of it, you don't own it in this quantity, and it's not spelled out specific as a piece, so.

JIM GEORGE: If we vote to accept this asset allocation, would Smith Hayes then proceed on redoing the different mutual funds? Come back to us for approval of what you recommend to proceed?

JOHN CRIPE: That's our suggestion.

AARON DRAKE: It's been desirous of this group and the present foreman and former member forum to have a more formalized, better asset allocation. For 5 years or so, we've been making some progress towards that, but we're at a stopping point. Here is one presentation from a professional organization, who is no stranger to us, we do business with them, their version of how to improve on it. We could talk about this a lot, but I think the Chair would entertain a motion of some form, so we can talk more specifically about this plan. If there is a motion in any form for a change in asset allocation?

JIM GEORGE: I would make a motion to accept this asset allocation plan submitted by Smith Hayes.

AARON DRAKE: And second?

MARK MEYERSON: I'll second.

AARON DRAKE: Okay. Let's discuss for and against this particular plan. If there's any additional questions.

MW; The only question that I would have is that in today's environment there are so many mutual funds that have been created or analyzed their portfolios in between growth and value that showed blend, you might want to, at some point and time, discuss saying, "That's okay, too." Because right now, the way it's presented, small cap growth would be 3%, small cap value would be 20. Well, if you look at the Vanguard small cap index fund, which I pulled off in the Morningstar stuff, it's really categorized as a blend.

GEORGE PETERSON: We went back 10 years - some of them drifted between blend and some over into the growth a little bit, but what that software does is look at all of the stocks they owned and then does a style box for all of that, and there is even a little percentage of large in there because they own a company and it's gone from a small company to a large company and they haven't wanted to get rid of it. You do the best you can and then put the whole thing together in one style box to how you the total.

JOHN CRIPE: Do you do that analysis when you're trying to decide which one to purchase?

GEORGE PETERSON: Yes. You kind of look at it to see which ones have drifted a lot.

JOHN CRIPE: In the context in having both value and growth. If you have 3 funds and one is specific growth and one is specific value and one is blend, do you say, "It's okay. We'll buy all 3"? Or what do you do?

MARK WESTPHALEN: I don't know that you want to buy all 3. I think you defer to the quality of the management of the funds, and the standard deviation on the funds. I mean that's way more important than the style box is, in my opinion.

JOHN CRIPE: Do you need to be that specific in this plan?

MARK WESTPHALEN: I would say in this motion, I don't know that we want to get that specific, but we also want to caution ourselves to say we recognized that going in, so that we're not going to be criticized 3 years from now, if somebody comes back and says, "You know, you should have had 20% small cap value and you've got 20% small cap blend."

GEORGE PETERSON: I think we need to give ourselves some leeway there.

MARK WESTPHALEN: Absolutely.

GEORGE PETERSON: By bringing the right ones together and looking at a combination, we can come pretty close and then, again, that's a moving target.

JOHN CRIPE: Well, this is a public record, so now you've got it.

MARK WESTPHALEN: Yes. I mean I think you're more concerned about the quality of the management, the long term management of the fund, and the standard deviation in the risks that the fund's taking to get the returns that it's after. You're not really concerned, in my opinion, whether it gets the style box correctly. In some respects.

AARON DRAKE: With respect to rebalancing, we talked about 1, maybe 2 years. And yet our mid to max allocation is so varied. Usually 3 to 20 in most cases, and 20 to 50. We could be way out of whack, and still be within here. What determines, or who determines, when we rebalance?

GEORGE PETERSON: Two things you're talking about. Rebalance would be, "Hey, we like our present allocation. That's what we started with. But large growth has gone up much more dramatically than we thought, so we're going to take some out of there and put it back in over here." That's rebalancing back to have the percentages that we wanted. The second thing would be to have the kind of presentation we had today annually to look at if our whole idea still right.

JOHN CRIPE: You know, if you were going to do review next June as we suggested, George makes the presentation and says, "1% is still solid, and 22% still solid, 5% still solid, but tips ought to not been 4.8, they ought to be 5.2 or something. And, oh by the way, you're at each one of these levels so you don't need to buy or sell." And that's, that's kind of where we're at.

PAUL LUTOMSKI: First, we have to say we want this, then we decide how fast we want to get there, then we decide how frequently we want to rebalance.

JOHN CRIPE: The City Council is given a presentation every week of what was purchased. They don't have to approve this. You're the only ones that have to approve.

MARK MEYERSON: I mean Mayor Johanns would never approve to pass that allocation we wanted. He never would.

JOHN CRIPE: He didn't. And you have an investment policy and we're prepared to go forward.

MARK MEYERSON: Okay. But they would have to approve it though.

PAUL LUTOMSKI: No.

JOHN CRIPE: No.

MARK MEYERSON: We can do it regardless.

JOHN CRIPE: Yes.

MARK MEYERSON: How come we never did that before?

JOHN CRIPE: Ummmmmmm. Good question. It had to do with us all getting fired. So. Other than that, no big deal.

JIM GEORGE: Politics.

JOHN CRIPE: I think all those are gone, as far as I can tell.

PAUL LUTOMSKI: John's boss asked permission.

JOHN CRIPE: Right. If you remember, we were not asking. Ron Todd came to a meeting. Heard us talking about it, and then went to the Mayor, and then it got stopped. We would have made the purchases that week. So, we're prepared to move forward with this.

AARON DRAKE: Any further discussion?

GREG SORENSEN: No. I think we made the - We need to be more aggressive. I really do.

AARON DRAKE: And I personally think timing is very good, on the spectrum of interest rates. We're still pretty heavy in debt. And if interest rates should turn around, we're going to take a much harder hit than we would if we adopted some of these.

PAUL LUTOMSKI: I think timing is also excellent during the next six months to sell growth stocks and converting those to income stocks.

AARON DRAKE: No further discussion, let's close discussion. We want to read our motion. Paul?

PAUL LUTOMSKI: Jim George made a motion to accept the asset allocation as proposed by Smith Hayes and it was seconded by Mark Meyerson.

AARON DRAKE: All in favor say "Aye" or raise your hand.

(Chorus of "Aye")

AARON DRAKE: All opposed? *(Silence)* Motion passes.

JOHN CRIPE: We'd be looking for some direction with regard to speed, and how everybody feels comfortable moving forward. You want to have this accomplished by the February meeting, with some of the selection before you in the November meeting?

MARK WESTPHALEN: I would suggest fund selection in the November meeting.

JOHN CRIPE: Okay.

MICHAEL DONNELLY: I think we can move on this asset allocation much faster, because of the fact that it's well diversified, it's good timing. Fund selection is one item this group hasn't looked at yet. But again I think the quicker we move to this, the better off we'll be in the long term.

JIM GEORGE: We can hold special meetings, if they can be compared.

MICHAEL DONNELLY: I think that's a good idea.

JOHN CRIPE: We could do a September meeting.

GEORGE PETERSON: We can have it done fairly fast. I don't want to push it too much.

JIM GEORGE: Because we don't want to rush you.

PAUL LUTOMSKI: How about the first Thursday in September. This room. Three o'clock.

JIM GEORGE: First Thursday?

JOHN CRIPE: What? Wait.

JIM GEORGE: What time?

JOHN CRIPE: Do you think that's enough, or do you want to go a little later?

GEORGE PETERSON: We can do that.

??: What day is that? Seriously.

??: Anybody have a calendar?

JOHN CRIPE: That would be the 4th.

(People check their schedules)

AARON DRAKE: September 11th?

(Several voices): Nine eleven.

JOHN CRIPE: Let's hold it at 2:30 or 3:00 depending on how long the agenda is. We'll do it in the same room.

JIM GEORGE: Will that work with you two guys?

MICHAEL DONNELLY: I would like to add that we rebalance our asset allocation annually and that our investment advisor Smith Hayes, makes an annual review of our asset allocation at that same time.

JIM GEORGE: Do we want to name what month?

JOHN CRIPE: We were recommending June. But that's a little off of our schedule of meetings. That would be a special meeting. But we should have it done before the fiscal year ends. Well, the fiscal year is actually end of August. So we should probably do it in June, so we're rebalancing in July and August, so we're ready to go. So why don't we have a special meeting in June to do that?

JIM GEORGE: I'll second that.

JOHN CRIPE: And actually I was going to bring that up. The quarterly meetings actually were intended to be based on when we would be buying bonds, so that we'd meet with you one week and the next week we'd buy bonds or sell them. The need to have them in those four quarters has gone away. So we could, and you can think about this in September, how you'd rather structure your year, meaning four times or five times. It doesn't matter to us. But the need for us to meet in August and November and February and May has gone away. Because those are bond purchase times. And we don't do that any more, so you can think about what part of year or what months or you'd like to meet six times, every other month. We don't care.

JOHN CRIPE: In September let's map out the next year's dates. So if everybody wants to bring their calendars, we can kind of map out where we would meet the next year. Then that would include the date for the review so everybody knows it.

JOHN CRIPE: Then we could get the actual dates in the book. So we know. Did you vote on that motion?

AARON DRAKE: No, we haven't. We haven't closed the discussion. Along these lines, we always seems to be saying special dates. How do our current four meetings work with our fiscal schedule?

JOHN CRIPE: I don't even care if we build in a special meeting for asset allocation and balance. So that you have 5 meetings a year, instead of scheduled 4. If everybody wants to bring in their calendar, and we can just map out those exact dates, in September so we're ready to go for the next year. But the reason for us having meetings in November and February and May and August went away, so.

AARON DRAKE: All right. Let's close discussion on motion on the floor.

AARON DRAKE: All in favor? Say "Aye".

(Chorus of "Aye")

??: Any opposed? Motion passes.

Several voices: Thank you.

PAUL LUTOMSKI: I would like to say this one thing so it's on the record. Item Number 9 is mistaken here. With regards to the pension budget request, it should read that five hundred thousand dollar increase was put into Mayor Wesely's preliminary budget for the Police & Fire pension. His final budget, that was reduced down to two hundred and fifty thousand dollars, and then Mayor Seng kept that two hundred and fifty thousand dollars.

JIM GEORGE: So Mayor Wesely reduced it to two fifty?

PAUL LUTOMSKI: Yes.

GREG SORENSEN: So how much you putting in this year? How much is the City putting into the pension this year.

PAUL LUTOMSKI: About 2 million dollars. Beginning next fiscal year. This year it's 1.75M -

GREG SORENSEN: And how much did you ask for?

PAUL LUTOMSKI: For the next fiscal year, we asked for 3.3 million.

GREG SORENSEN: And they're putting in 2.

JOHN CRIPE: Right. It happens every year.

GREG SORENSEN: And for this year, you asked for how much?

PAUL LUTOMSKI: Probably about 3 again. I'd have to look it up.-

GREG SORENSEN: And they put in about one eighty.

GEORGIA GLASS: I think it was about 3. Yes.

JIM GEORGE: How much are they putting in for the this budget? The one Coleen made.

PAUL LUTOMSKI: Roughly two million. And that's for the 2003-2004 fiscal year.

JOHN CRIPE: Well, and remember when you see how much gets contributed, these are tax collections, so if you don't collect everything that you're supposed to collect, we don't get the 1.8 either. We may get it 2 years from now, because that's when somebody pays their tax bill. So these are tax funds, so we get them as their paid. And they're tax specific for the pension, so if somebody doesn't pay their taxes for two or three years, then we get a lump sum payment. You can't really go to the book and say, "Okay, they said they'd put in 1.8 and we got 1.8." Because it just never happens that way.

TH: Property taxes?

JOHN CRIPE: Yes.

TH: So it's not the Police and Fire paying?

JOHN CRIPE: No. This is all property taxes.

PAUL LUTOMSKI: There's a special levy in the ordinance, but they've never used it.

JOHN CRIPE: Well, it's designated on the property tax, or it used to be.

PAUL LUTOMSKI: Yes, it is right on your tax statement.

PAUL LUTOMSKI: So now it's up to Aaron which of the other topics to discuss. We've talked about 1 through 5, and number 9.

JOHN CRIPE: We actually hit on Mark Westphalen's number 8. The overlap.

JIM GEORGE: Georgia, it was my understanding that you had offered to go to both mayoral candidates and discuss the pension's budget with them. What did we?

JOHN CRIPE: That's item number 14.

GEORGIA GLASS: Well, You know, when I read that. I don't - I didn't do that.

JIM GEORGE: *(Laughing)* You didn't do that?

GEORGIA GLASS: We talked about that. But I don't think -

JOHN CRIPE: I asked you - I think I asked you at one point. You said you'd already talked to Glenn.

GEORGIA GLASS: I had. Yes. I never made a formal request to candidates saying, "Come in and talk about police and fire pension." Glenn had - Glenn had come in right after he was elected, and we had a meeting about the police and fire pension. Him and one other City Council person.

JOHN CRIPE: Two others. Svoboda and Camp.

GEORGIA GLASS: Svoboda and -? Oh, and Camp? Okay.

JOHN CRIPE: Camp, Svoboda and Friendt.

GEORGIA GLASS: But - And we talked about, after the primary of inviting them together, the two finalists. They were the only candidates, weren't they? Well, anyway. So we had talked about after the primary and before the general election of having them come in for, and no, I never did that in a formal ....

PAUL LUTOMSKI: Number 14 is wrong. I'm sorry.

GEORGIA GLASS: Yes, that's okay. I meant to say something to you before the meeting, and I forgot. And that's a bit - Kind of unfortunately that. Yes.

JIM GEORGE: Especially now that our fund is underfunded. I mean we've talked about how crucial this funding is and it just seems like we talk and talk .....

JOHN CRIPE: It isn't like I didn't stand up there and tell them April 28th.

GEORGIA GLASS: Well -

JIM GEORGE: But have we really done everything we can do?

GEORGIA GLASS: Pardon?

JIM GEORGE: Have we really done everything we can do in order to educate them?

GEORGIA GLASS: Well, I will tell you that two, two people on the City Council, on their - brought up during budget discussions about increasing the finances of the fire pension. John Camp did and ... I'm not so sure it wasn't Terry Werner. Anyway, so I really last Monday worked with .... Last Monday.... Two Mondays ago, when it was an opportunity for the City Council to introduce amendments to the Mayor's proposed budget. I fully expected somebody to introduce a resolution to increase the money to the police and fire pension, and it didn't happen. And that would have been their opportunity to do that. Because that's when they introduced a resolution to spend more money regarding sidewalks. And to hire an internal auditor and take it out of I.T.'s budget and that kind of thing. That was their moment to do that, and they didn't and I was very surprised. They'll have another opportunity Wednesday. Monday night is the public hearing on the budget and then Wednesday, they meet again to make recommendations to changes to the Mayor's proposed budget. Because what they have in front of them is the Mayor's proposed budget, then they can alter it. That will be their other opportunity to do this, but -

JIM GEORGE: Well, when you say "they"?

GEORGIA GLASS: The City Council. "They" is the City Council. Yes.

JIM GEORGE: Is there something that somebody needs to take to the City Council? Wouldn't a plan administrator go before the Council and make that recommendation?

PAUL LUTOMSKI: Well, . . .

GEORGIA GLASS: I mean that was, that was, that's what I talked to Mayor Wesely about. And Don Herz was in the room at the time and so that's - The Mayor puts together the budget, a balanced budget to present to the City Council. Then the City Council has an opportunity to make amendments. So Mayor Wesely instructed Hubka to increase the contributions to the Police and Fire Pension by $500,000. Somehow between then and the final budget that, which was done before he left office, it was reduced to 250,000. And I, without going back and asking, I can't tell you at what moment that happened or why.

JIM GEORGE: But you're saying that was -

GEORGIA GLASS: And then -

PAUL LUTOMSKI: I called Don Herz, the Finance Director, just before this meeting and asked him and he said Mayor Wesely had two $250,000 increases attached to the Police and Fire.

He wanted both, but the second one was not a guarantee, and that's what he said to Georgia and I, he said he would try to get $500,000, he took that out by the time the final came through.

JIM GEORGE: Well, I probably have to go back to the minutes of our last meeting to be specific, but it was my understanding that you and John and I believe Mike and maybe Mark were going to go before the both of the candidates and discuss the budget.

JOHN CRIPE: Yes, it's in the minutes you approved, from February. We talked about it. And I asked Georgia if she would set that up. It didn't happen. It isn't that we haven't talked to them about it.

JIM GEORGE: I know we've talked, but -

JOHN CRIPE: No, no, no. It isn't that we didn't explain to the City Council that they have to dramatically increase their funding.

MICHAEL DONNELLY: That's on page 6. The motion was moved.

MARK WESTPHALEN: Yes, it's on page - it starts on page 5.

JOHN CRIPE: No, there's no question that it's in there.

GEORGIA GLASS: That's right. That's what we talked about, that actually have them come to a Pension Advisory Committee meeting.

JOHN CRIPE: Right. Or having a meeting where that's available.

Jim George: And that just - that never materialized.

GEORGIA GLASS: That never happened. Right.

JOHN CRIPE: Well, things kind of went south in April.

GEORGIA GLASS: And the fact that the City's - It has. I mean it has come up. City Council people have brought this up in their budget discussions, so it's not that they're oblivious to this, because they have brought it up and said, "We need to increase the funding" and that kind of stuff, so you know it's like any other budget decision. They, they, they make priorities. But they're not oblivious to the fact that the pension is no longer 100% funded, and that there needs to be more ah contribution to it.

JOHN CRIPE: Just as we said last time, though, Jim. The last dozen times, there's no glamour in them putting $500,000 in for our pension. There's no glamour in it whatsoever. They get more kicks out of fixing the sidewalk by the public than they do giving you $500,000.

JIM GEORGE: Maybe they shouldn't waste their time putting anything in it.

JOHN CRIPE: Well, I'm just being honest with you. I mean as politicians they're looking for votes. They're looking for support. And every time the two things come up side by side we lose every time.

TH: Isn't there taxpayer liability? For not funding our pension properly?

JOHN CRIPE: Well, at some stage there is.

TH: Doesn't that concern them?

JOHN CRIPE: At some stage it is, and it isn't there yet.

AARON DRAKE: But it's not an issue that standing right in front of their face. That's the problem.

JOHN CRIPE: Right.

MARK MEYERSON: They're going to wait until there's a crisis.

GREG SORENSEN: And $500,000 actually doesn't do anything to the pension. They increased it by $500,000 and that's nothing. And they're so short now.

JOHN CRIPE: Well, and last summer we told the Task Force that we thought the two unions should spend their time either getting an ordinance or getting a charter amendment changed so that the City has to make the normal cost contribution, and it went nowhere, so.

JOHN CRIPE: It doesn't take them to put it on the ballot.

JIM GEORGE: Well, like Georgia said, they would never agree to that. Maybe the reason the unions aren't doing it is because ....

TH: How can you make them do that? You can't make them do that.

JOHN CRIPE: You can put on anything you want on the ballot.

JIM GEORGE: You can put it on there, but if it doesn't have a chance of passing.

JOHN CRIPE: But it's the ballot to the public. It's not the politicians ballot.

JIM GEORGE: Oh, a ballot. Okay.

JOHN CRIPE: I mean a City Charter amendment that says that they have to fully fund the pension or that they have to make normal cost contributions. That's what we were talking about with Anna Sullivan. She said the state has a statute that says they have to fund it. So every year they make the funds.

JIM GEORGE: You know that's just it. There's a way to do it, because the state has done it, numerous municipalities have done it.

JOHN CRIPE: And that was the suggestion. Until we do something dramatic like that, we're going to get the 250's until we get the normal cost. We'll keep sending letters saying, "We're short by a million dollars," we do it every year. We're kind of upholding our obligation and your obligation to notify the City managers they're short. And that's what we're trying to do. And every year the City Council, for the last 15 years I know of, and probably before that, gets the actuaries report. And every time it hasn't been among the greater contribution.

JIM GEORGE: Well, I think the suggestion of meeting with the two mayoral candidates, I believe it was Mike's suggestion.

JOHN CRIPE: Honestly, I think these two candidates know the position of the pension and what shape it's in. I'm sure they know it.

JIM GEORGE: It's not at the head of the list.

JOHN CRIPE: It is not the head of their list and it would not have been at the head of their list. It isn't now. We already know it isn't. Or they could have both changed it. And they both do know.

GEORGIA GLASS: And don't forget that when Wesely put together that Special Task Force, and that was kind of part of the - I don't think - Were you involved? You weren't involved yet, were you, Mike?

MICHAEL DONNELLY: No.

GEORGIA GLASS: But you were, Mark. And I think that was one of the things that came out of that Special Task Force was them saying to Mayor Wesely, "If you don't start increasing the contribution, this is sort of what's going to happen within 10 years time, if you don't pick –" And that final letter or whatever that the Special Task Force wrote to the Mayor, also went to the City Council. So. And Wesely certainly got the message.

JOHN CRIPE: I'll be glad to talk to the City Council every year.

MARK WESTPHALEN: You mentioned that they get an update on the pension plan.

JOHN CRIPE: They get the actuaries' report.

MARK WESTPHALEN: Okay. But other than that.

JOHN CRIPE: No. We think they should get a formal update every year. They have not. We believe they should.

MARK WESTPHALEN: Is there anything wrong to say that they get a quarterly update on the pension plan whether they want to see it or not? Is there any way that you could slip a one page summary in front of them and say, in big bold letters, -

JOHN CRIPE: You could send them in their packet, every quarter and update summary of where we are. Sure. They would get it. We could not get on their agenda every quarter.

MARK WESTPHALEN: No.

JOHN CRIPE: I mean that would be overkill.

MARK WESTPHALEN: No, I'm not saying that we get on their agenda every quarter. But I think you have to start a paper trail. So all of a sudden you start sending them things that shows where the numbers are going and what the record - a one page executive summary that shows, "This is where we're at, this is where we're going," and we think this just needs to get their attention.

JOHN CRIPE: You know, I think an education first, they need to be able to read the actuaries report. Because frankly I don't think any of them can read it.

MICHAEL DONNELLY: Jon Camp can. Jon came out of the pension industry.

JIM GEORGE: I think he's probably the only one.

JOHN CRIPE: We give it to them and so when it says, "Here's the percent of funding. Here's the earnings. Here's the contributions.

JIM GEORGE: And we keep doing that and we keep getting nowhere.

JOHN CRIPE: Everything you wanted to know is there.

JIM GEORGE: My only point in bringing it up is are we truly doing everything we can do at this level?

GEORGIA GLASS: Well, you know.

MARK WESTPHALEN: Probably not.

GEORGIA GLASS: Here's probably the question that we need to ask, and quite frankly, Steve Hubka in Budget might know the answer as well as anybody, which is: We can ask all we want, but when decisions are made about what is or is not going to go into the budget, because ... how does that work? And why is it that the City Council, knowing full well that they're not putting in what the actuaries say that they should, what's their thinking as to why, or what's the Mayor's Office thinking when they get down to prepare the balanced budget, because you know he's – I'm not sitting in the room when that's going on. He and Don Herz are sitting in the room with the Mayor and with Mark Bowen.

MARK WESTPHALEN: I'll see you guys.

AARON DRAKE: Thank you.

GEORGIA GLASS: See you, Mark. You know there's conversation that goes on about "let's put in this, and let's take out that" and all that kind of stuff. I think we need, rather than saying, "Can we find more ways to ask," I think we need to - the question needs to be, "What's the way that we get what we need?" Then we can - You know what I'm saying? It's like - So let's - So help us understand the process better than what apparently we do, as to why they say, "Well, we know we should be putting 3 million dollars into the pension, but we're only going to put in one million." What's going on inside? Because it starts with the Mayor's Office. Because the Mayor presents the budget to the City Council, and then the City Council look at it and tear it apart, or do whatever they do, and then they come down -

PAUL LUTOMSKI: The council always passes exactly what the Mayor asks for regarding the pension contributions.

GEORGIA GLASS: Yes. This is probably the first year that a couple of City Council people said out loud in a public meeting, "I think we need to put more money into the police and fire pension."

JOHN CRIPE: It seems like to me, though, you need a public debate. I mean you need an ordinance that says they have to do this. You've got to put the ordinance in front of them, then you need a public hearing so that they all get the message.

GREG SORENSEN: When is the next election? Do you know? When is the next public election?

JOHN CRIPE: November.

GEORGIA GLASS: The one in November.

JOHN CRIPE: But you probably can't get the ballot by then.

GEORGIA GLASS: Is there one in the Spring?

JOHN CRIPE: May.

GEORGIA GLASS: Yes.

MICHAEL DONNELLY: So maybe we need to shoot for something like that in the Spring.

GREG SORENSEN: You know, maybe we do. Maybe if we had a City ordinance that says you have to contribute, then it's just whatever they say.

JOHN CRIPE: It would be a Charter amendment that says that they have to fund this at whatever level, that's what - I think that's what you have to do. You know, I'm getting fairly old and tired of sending memos, older than I am tired, I suppose. But you know, that don't get acted on. And if it's in the charter, that means the citizens approved it. That means that they've spoken, that this is what they want them to do. And that's the number one issue that you have facing you. It is continued funding, and funding at a standard level. So whether it's the minimum contribution, minimum actuaries' recommended contribution, or whether it's full normal cost, whatever you choose to put out there. Then they have to, they would have to go forward with it.

GREG SORENSEN: Well, I say we have to discuss it, but I'd say full normal cost as opposed to minimum. You start putting minimum standards in, you're going to end up in the same situation.

JOHN CRIPE: Well, but every year the actuary gives you a minimum funding standard, and if we got that every year, we'd have been rosy. The full normal cost is, at this point, 10%. We're at what? Four percent?

PAUL LUTOMSKI: I think normal cost is 11.8% and they're putting in around four and a half percent, or so.

GREG SORENSEN: And that's what the actuary would recommend?

PAUL LUTOMSKI: No, they'd recommend more now, because we're underfunded.

JOHN CRIPE: Right. Because we're underfunded.

AARON DRAKE: Let's put this on the agenda for next time, to start formulating an ordinance as well as the timeline as to when we can get this accomplished by. For May.

JOHN CRIPE: It seemed like to me that we had to do a Charter amendment, and I'm talking about the City. The City had to do a Charter amendment just so that they didn't have to take the contracts that we signed with Police and Fire to the Personnel Board. Because it was originally that the Personnel Board had to approve all those kinds of things. So it isn't like you don't go forward to make changes that make sense, and to me I don't know any politician who could stand up and say, "This is a bad idea."

GREG SORENSEN: Well, what they're going to say is that if this thing passes, it's going to raise everybody's taxes, that's what they'll hang their hats on.

TH: That's why we've got to get education out to the public before you run an amendment.

JOHN CRIPE: The issue is there's only so much in this pie. And there always is only so much in this pie. And you can't get your share of that to fund this, unless you do something different than you're doing.

PAUL LUTOMSKI: And it's either going to raise their taxes now or raise their taxes later.

JIM GEORGE: It's going to raise their taxes anyway. Yes, it's just a matter of when. Like maybe their grandchildren's taxes are going to get raised.

MICHAEL DONNELLY: Well, it's like Mark pointed out. They won't do anything until there's a crisis.

JOHN CRIPE: Well, and we tried to tell them this is the time, this is the crisis. I mean they still didn't pay attention. If we don't make the assumed rate of return, and we more than likely will not, unless August is very good. We had a net pension obligation last year of 240,000 plus normal cost. Well, then you were probably adding another million to that 240 plus normal cost, so now we're at 5 million that they've got to put in to make us whole? Well, what will it be next year?

PAUL LUTOMSKI: Eight.

JOHN CRIPE: At some point, it's eight or ten million, where will they find it? So it is to the point where they have to be paying attention. Even if it doesn't pass.

GREG SORENSEN: And that's after they've used up the 22 million dollars that were overfunded at the start.

JOHN CRIPE: Yes, that's gone.

JIM GEORGE: I mean that's what I was hoping we were going to have the opportunity for you and Mike and Mark to go to the Council or to the Mayor and explain it. You explained to us. I mean we understand what you're saying.

JOHN CRIPE: It won't make any difference in this budget.

TH: So you can't go there Wednesday when they have their last chance to do it.

JOHN CRIPE: I don't think it will make any difference in this particular budget.

JIM GEORGE: I'm not so sure it'll ever make a difference.

GEORGIA GLASS: I mean it - yes.

JOHN CRIPE: So far I've found that it has not.

GEORGIA GLASS: The opportunity for any taxpayer to have their say is going to be Monday night. And then the Wednesday morning meeting, it's an open meeting, but it's not a public hearing public, it's a work session for the City Council after they've heard what the public has to say on Monday night. Then on Wednesday morning if they want to propose any changes to the Mayor's budget based on the Monday night testimony that's when they'll do it. I don't think it's an opportunity for -

JOHN CRIPE: If you look back somewhere in the '70's or '80's, we went underfunded under 100%, and I think that year, Vavra allocated out of the budget one point nine million which would be considerably more than the percentage we're talking about today, because the pension was probably only 50 million at the time, and 2 million would have been a lot of money. This isn't the first time where people haven't really stepped up when we went underfunded and made a contribution.

GREG SORENSEN: Right now they're all worried about the comprehensive plan, the costs and stuff for construction and user fees and all these things.

JOHN CRIPE: You'll never get out of that battle.

AARON DRAKE: Do we need to pack fund?

GREG SORENSEN: Yes, I'm more of a violent type. People have told me that. I don't know why.

JIM GEORGE: Has anybody asked Anna Sullivan how their languages, statutes are worded.

PAUL LUTOMSKI: Oh, that's a good idea.

JIM GEORGE: Can you just contact other pension administrators, some of which have these type of funding fixes, can you do some research there to find out how that was implemented in their locale?

JOHN CRIPE: Yes. My guess is that it was in decades ago when it wasn't a huge obligation. I mean that's just a guess on my part. Much like some of the benefit structures you see, that you find in the market. Some of those benefits were put in place years ago, when the cost was negligible and today they're huge. I would think they got the ordinance to fully fund it in the state whenever it was a minor issue.

GREG SORENSEN: Yes, and I think that if something like this were to ever go, you would have to come up with a payment rate that wouldn't be all of a sudden you've got to put in ten million dollars. You'd have to say, "Okay, now, you have to do a 125% percent this year and maybe 125 or 150 next year." But if you tell the taxpayers, "You've got to put in 10 million dollars this year to fully fund it," they're going to say, "You're crazy." You know?

JOHN CRIPE: Well, I mean, you know they do bond issues for all kinds of crap.

GREG SORENSEN: Yes, they also turn down bond issues for all kinds of crap.

JOHN CRIPE: Well, that's exactly right.

JOHN CRIPE: Yes. I mean when you start talking about taking money out of somebody's pocket to pay somebody else, they're going to say the same thing they always say, "Why?"

JOHN CRIPE: Well, you know in the old days of negotiations with Al Berndt, he used to say, "You're going to live by comparability. We may have half the police officers, but you're going to pay us comparability." Well, that's the same issue here. You have to pay whatever's in the coffers. There's only so much in this pool, so to pay us, and I made this illustration, to the City Council I think in April, let's say you fund your obligations, your increasing obligation is more than several of the department's annual budgets, so do we wipe out the Parks Department, the Personnel Department, you know, in order to make up this shortfall. At some point it gets that dramatic. Right now, it is not, but it will be in a year or two. And regardless, somebody's got to pay the bill.

AARON DRAKE: Paul, if you could look up that State information and maybe, we might be able to use if it's good, for the next part of the fund. We need to move on, now let's, if you're done, you're done.

JOHN CRIPE: I've got that done.

AARON DRAKE: Fine. Do you want to keep going? Talk a little more?

PAUL LUTOMSKI: I have to leave pretty soon now. Sorry.

AARON DRAKE: We'll put these items on the next meeting. Which is the September 11th.

PAUL LUTOMSKI: Maybe I'll just mention, if that's okay, we did start implementing the investment asset allocation plan that we talked about here. I mentioned we purchased two and a half million dollars of TIPS funds, that was one of the recommendations that Smith Hayes had. We also purchased 10 million dollars in real estate. That purchase was effective June 1st. There was very good justification for purchasing it, and we felt that if the committee would have met they would have agreed to that purchase. We did a lot of research to choose the J.P. Morgan's Strategic Property

Fund. So we do have 10 million dollars of real estate, which is a 7% allocation, and two and a half million dollars of a TIPS fund called the Pimco Real Return Fund, and that's a 2% allocation. But we have room for more real estate that we will consult with you on.

JIM GEORGE: What category does that real estate fall under?

PAUL LUTOMSKI: Real estate.

JIM GEORGE: It's got it's own separate?

PAUL LUTOMSKI: Yes.

MARK MEYERSON: As you said earlier, do you consider that part of the equity?

JIM GEORGE: Yes, somebody mentioned earlier about real estate, I think it was George Peterson, in his presentation.

PAUL LUTOMSKI: Oh, I think he said convertibles are part of equity.

JIM GEORGE: I thought he said real estate.

MARK MEYERSON: I thought he did too, but I mean it might have been property.

JIM GEORGE: He might have mis-spoke. I don't know.

PAUL LUTOMSKI: Well, real estate is on here as a separate category at 14.7%. That's all I have.

AARON DRAKE: Okay.

GREG SORENSEN: Okay, when are we going to talk about these DROP changes? Can we not talk about those at these meetings? Is that what you're saying?

PAUL LUTOMSKI: That's what I'm saying.

JIM GEORGE: We can't talk about the DROP changes at these meetings?

GREG SORENSEN: Right. That's what he's saying.

GEORGIA GLASS: Well, I think we've taken the position, based on what the stated purpose of this board is, I mean, you know, Mike and Mark aren't - They're here to give investment advice and to look at investments and I think we've said that the purpose of this meeting isn't to talk about benefit changes. We can schedule a meeting to talk about benefit changes. But now that, Mark and Mike I guess would be welcome to come to, if they wanted to, but. Yes, so I mean I think we should have a meeting then just to talk about the DROP changes.

PAUL LUTOMSKI: Okay. And we're not opposed to having a separate meeting.

MICHAEL DONNELLY: Which I think is a good idea.

PAUL LUTOMSKI: This is for investments and how the plan is operated under its current structure.

AARON DRAKE: Okay. How about non-monetary benefits?

JOHN CRIPE: Well, they're benefits.

AARON DRAKE: Or insignificant monetary benefits?

PAUL LUTOMSKI: I would say "No". The ordinance says you're to give us advice on investments and the general operation of the plan. So even if it doesn't have a financial impact, I think that's still considered a benefit, and we talk about that elsewhere.

GEORGIA GLASS: I mean we can always have a half an hour before or after this meeting, and we're not tying up Mark and Mike because they not there.

GREG SORENSEN: Well, I'd like to schedule one as soon as possible. I'd like to schedule one next week to talk about these DROP changes, because there's people that are running out of time as far as DROP is concerned, and the Board of Trustees is staying out there. So I'd like to set something up for as soon as we can possibly do it. With everybody that's involved.

GEORGIA GLASS: Do we have the information that we need to have that meeting? Or are we still waiting - We've got - I mean we have the letter from Ice Miller, right? Is there -

PAUL LUTOMSKI: We have the letter from Ice Miller, and ....

GEORGIA GLASS: Did we - ? We didn't get anything in writing from Gabriel Roeder.

PAUL LUTOMSKI: We didn't ask them.

GEORGIA GLASS: We didn't ask them. We asked - They had to be turned over to the attorneys. So Ice Miller did it.

PAUL LUTOMSKI: Yes.

GEORGIA GLASS: Well, or just what we legally can and can't do? Well, if we - My point being as long as we have these two - They had to get some information on the proposed DROP changes, what we could or could not do legally, and what it would take as far as, you know, IRS approval, or whatever.

PAUL LUTOMSKI: We gave the Ice Miller letter to the City Attorney's Office and we're waiting for their interpretation.

GEORGIA GLASS: Don's been working on that. That's right. So I would think probably in a couple of weeks, yes, we could meet. We'd have the information that we need to tell you, to say, "This is what we ...."

GREG SORENSEN: So Don Taute? Is that?

GEORGIA GLASS: Don Taute is looking at -

GREG SORENSEN: He's looking at it to see what he thinks of what Ice Miller thinks?

PAUL LUTOMSKI: Yes.

GEORGIA GLASS: Well, he's -

PAUL LUTOMSKI: Because - well, I mean, the Ice Miller wrote this in a legal fashion.

GEORGIA GLASS: We just asked Don to say, "Can you help us sort through, so we're sure we understand exactly what they're saying?" And he's not writing another opinion. He's just sort of putting what they said in an easier to understand format.

PAUL LUTOMSKI: That's our hope.

GEORGIA GLASS: Yes.

GREG SORENSEN: And he should have it done in a couple of weeks?

GEORGIA GLASS: I'm going to see him in the morning. I'll ask him at that meeting. In the morning, I'll ask him. He mentioned to me last week that he was working on it, so.

GREG SORENSEN: Okay. Get it then, so that we can have a date, and then we'll tell our people, you tell your people, we'll all meet back up here within a couple of weeks, and get this done.

MARK MEYERSON: I have a question along these same lines. Would this committee be allowed to discuss overfunding policy? In the event that we ever become overfunded again?

GEORGIA GLASS: Meaning ....?

GREG SORENSEN: What would you do with the overfunding?

GEORGIA GLASS: What would we do with the overfunding?

MARK MEYERSON: Yes.

PAUL LUTOMSKI: As long as we don't spend it on benefits, I suppose.

MARK MEYERSON: Well, obviously we'd want a portion of any overfunding applied towards future enhancements. So. Rather than just watching overfunding disappear and dissipate. I mean, is this something the committee would consider on the agenda? Or would it have to be discussed elsewhere?

GEORGIA GLASS: Well, you know, it seems to me that if you .... It's probably reasonable to talk about a policy, or whatever word you want to use, of overfunding when we have Mark Westphalen and Mike Donnolly here. Because I think that does become sort of a investment strategy, you know. How far overfunded could we be before we spend anything, or how far overfunded you would want to be just for, to protect yourself in perpetuity. I mean I think those kinds of things would be appropriate for our two financial advisors to be in on. And then I think if the City is overfunded and it comes down to okay, now let's talk about how we can spend it on the membership, then yes, I think we can probably have a different kind of a meeting that probably needs to include somebody from the Mayor's Office.

PAUL LUTOMSKI: And I'm sorry to say I think you're going to have a lot of time to get that finalized.

MARK MEYERSON: I think it's important to get it in place, so that 3 to 5 years from now, when the money is there, we have, I mean an overfunding policy is pretty common in pensions.

PAUL LUTOMSKI: No, I think it's a good idea, but I think that -

AARON DRAKE: We have an overfunding policy. The City reduces their contributions.

JIM GEORGE: Whether they're overfunded or not, though.

AD Well, yes. Whether they're overfunded or not, but that's, that's how they handle that.

JIM GEORGE: Hopefully a year from now, or two months from now, we'll have a completely different format with a Board of Trustees. We've never talked about that, but that - as we all -

AARON DRAKE: As we thought we'd be with that.

JIM GEORGE: Because we all know there's other issues.

GREG SORENSEN: So I can get a hold of you?

GEORGIA GLASS: *(Affirmative sound)*

GREG SORENSEN: After you talk to Don?

GEORGIA GLASS: Yes, I'll just - I'll - I made a note to myself to let you know what he says. I'll ask him in the morning and think -

GREG SORENSEN: And I'll call you.

GEORGIA GLASS: And you can call me.

GREG SORENSEN: And then we can set something up for as soon as we can and get - We'll just get the City and the police and fire and attorneys in here and try to work all this out and then you won't have to be buttoned by me all the time.

GREG SORENSEN: Georgia, can I get a copy of Don's output on that?

GEORGIA GLASS: Sure.

AARON DRAKE: Adjourn.